

BEFORE THE
UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Global Expedited Package Services 7
(MC2010-28 and CP2010-71)
Negotiated Service Agreement

Docket No. CP2017-207

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE NOTICE OF
FILING A FUNCTIONALLY EQUIVALENT GLOBAL EXPEDITED PACKAGE
SERVICES 7 NEGOTIATED SERVICE AGREEMENT
(June 21, 2017)

The Public Representative hereby provides comments pursuant to the Commission Notice initiating this docket.¹ In that Notice, the Commission established the above-referenced docket to receive comments on a Postal Service Notice of filing an additional Global Expedited Package Services 7 (GEPS 7) negotiated service agreement (Agreement).²

Agreements included within the GEPS 7 product offer incentive pricing to mailers that send items directly to foreign destinations using Priority Mail Express International, Priority Mail International, or First Class Package International Service. Notice at 4. Prices offered pursuant to a GEPS 7 agreement may differ depending upon the volume or postage commitments made by the mailers. *Id.*

Prices and classifications not of general applicability for GEPS agreements were established by Governors' Decision No. 11-6.³ In Order No. 3542, the Commission established GEPS 7 as a product on the competitive product list. It designated the

¹ PRC Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, June 14, 2017 (Notice).

² Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 7 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, June 13, 2017 (Notice).

³ See Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates (Governors' Decision No. 11-6), March 22, 2011.

contract that is the subject of Docket No. CP2016-280 as the baseline agreement for functional equivalence comparisons with future agreements.

The Postal Service states that the Agreement is functionally equivalent in all pertinent respects to the baseline agreement and is in compliance with the requirements of 39 U.S.C. § 3633. Notice at 4. The Postal Service therefore requests that the Agreement be added to the GEPS 7 product grouping. *Id.*

COMMENTS

The Public Representative has reviewed the Postal Service's Notice, the Agreement, and the supporting financial model filed under seal with the Notice. Based upon that review, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement for the GEPS 7 product. In addition, it appears that the negotiated prices in the Agreement should generate sufficient revenues to cover costs and satisfy 39 U.S.C. § 3633.

Functional Equivalence. The Postal Service asserts that the Agreement shares similar cost and market characteristics as those of the baseline GEPS 7 agreement. Notice. at 3. However, the Postal Service identifies some differences between the Agreement and the baseline agreement. *Id.* at 4-5. Most of these differences consist of changes similar to those included in other recent GEPS 7 agreements, or are specific to the customer (e.g., the customer's name and address).

The Postal Service maintains that these differences do not affect either the fundamental service the Postal Service is offering or the fundamental structure of the Agreement. Notice at 5. The Public Representative concludes that the Agreement exhibits similar cost and market characteristics as the baseline agreement. Therefore, the Public Representative concurs with the Postal Service that the Agreement is functionally equivalent to the baseline agreement and should be added to the GEPS 7 product.

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products

by market dominant products; must ensure that each competitive product covers its attributable costs; and, must ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

As presented, the Postal Service's financial model does not directly address whether the addition of the Agreement to the GEPS 7 product will result in the product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2). However, the Postal Service's financial model indicates that the negotiated rates in the Agreement will generate sufficient revenue to cover attributable costs. Therefore, the addition of the Agreement to the GEPS 7 product should not cause the product's cost coverage to fall below 100 percent because the product currently covers its attributable costs. Consequently, the addition of the Agreement should allow the GEPS 7 product to continue to comply with 39 U.S.C. § 3633(a)(2), and should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Also, the addition of the Agreement is unlikely to prevent competitive products as a whole from contributing an appropriate share to the Postal Service's institutional costs, consistent with 39 U.S.C. § 3633(a)(3).

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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